



Peterson
Allred
Jackson

CITY OF WELLSVILLE

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2005**

**With Comparative Totals
For June 30, 2004**

▪ Certified Public Accountants
Business Consultants

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INTRODUCTORY SECTION



WELLSVILLE CITY CORPORATION

75 East Main
P.O. Box 6
Wellsville, Utah 84339
Phone: 435-245-3686
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MAYOR
Ruth P. Maughan
CITY COUNCIL
Kent H. Branchley
Ron Case
Lynn P. Cooper
Marcene Parker
Dick Wells

DON HARTLE
City Manager
City Recorder
LEESA M. COOPER
City Treasurer

November 4, 2005

Wellsville City Council
Wellsville, Utah

Council:

It is with great pleasure that the financial statements for the City of Wellsville for the year ended June 30, 2005, is presented.

In addition to the fund financial information currently presented in the City's financial statements, this report includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net assets of the City including all capital assets (including infrastructure) and the Statement of Activities that shows the cost of providing government services.

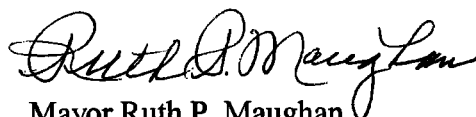
State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. These financial statements are hereby issued and submitted to you for the fiscal year ended June 30, 2005, in accordance with these requirements.

This report consists of management's representations concerning the finances of the City of Wellsville. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established an internal control framework that is designed to both protect the assets of the City from loss, theft, or misuse and to allow for the compiling of sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's internal control procedures have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of management's knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Wellsville's financial statements have been audited by Peterson Allred Jackson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Wellsville for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Wellsville's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

I wish to express my appreciation to all members of the City who assisted and contributed to the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script, reading "Ruth P. Maughan".

Mayor Ruth P. Maughan
City of Wellsville

FINANCIAL SECTION

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Peterson
Allred
Jackson

■ Certified Public Accountants
Business Consultants

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Wellsville
Wellsville, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wellsville, Utah (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 4, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results for our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The combining nonmajor fund statements listed in the table of contents are presented for purposes of additional analysis of the financial statements of the City. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Management's Discussion and Analysis on pages 10-14, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Peterson Alured Jackson

November 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Wellsville, we offer readers of the City of Wellsville's financial statements this narrative overview and analysis of the financial activities of the City of Wellsville for the fiscal year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

- The total net assets of the City of Wellsville increased approximately 5% to \$7,214,566.
- The total net assets of \$7,214,566 is made up of \$5,709,828 in capital assets net of related debt and \$1,504,738 in other net assets.
- Total long-term liabilities of the City were reduced by \$116,000 of principal payments and a new note for \$95,000 was obtained.
- Business-type activities total net assets increased \$70,211.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the City of Wellsville's basic financial statements. The City of Wellsville's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City of Wellsville's finances, in a manner similar to a private-sector business.

- The statement of net assets presents information on all of the City of Wellsville's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Wellsville is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Wellsville that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 16 & 17 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Wellsville also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental fund (as determined by generally accepted accounting principles) is the General Fund. The balance of the governmental funds are determined to be nonmajor and are included in the combining statements within this report.

- Proprietary funds - The City of Wellsville maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Wellsville uses enterprise funds to account for its Water Utility and Wastewater Collection Utility.

As determined by generally accepted accounting principles, all enterprise funds meet the criteria of major fund classification.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Wellsville, assets exceed liabilities by \$7,214,566.

By far the largest portion of the City of Wellsville's net assets (79%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Current and other assets	\$ 1,277,504	\$ 982,195	\$ 605,776	\$ 868,699
Capital assets	1,887,549	1,734,704	5,070,279	4,859,673
Total assets	3,165,053	2,716,899	5,676,055	5,728,372
Long-term debt outstanding	82,000	-	1,166,000	1,269,000
Other liabilities	352,861	258,693	25,681	45,209
Total liabilities	434,861	258,693	1,191,681	1,314,209
Net assets:				
Invested in capital assets, net of debt	1,805,549	1,734,704	3,904,279	3,590,673
Restricted	674,896	510,601	273,679	524,554
Unrestricted	249,747	212,901	306,416	298,936
Total net assets	\$ 2,730,192	\$ 2,458,206	\$ 4,484,374	\$ 4,414,163

CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Revenues:				
Program revenues:				
Charges for services	\$ 490,860	\$ 465,388	\$ 662,407	\$ 622,454
Operating grants & contributions	27,817	1,891	-	-
Capital grants & contributions	167,702	647,540	-	413,379
General revenues:				
Property taxes	165,850	155,248	-	-
Other taxes	403,625	341,552	-	-
Investment income	17,335	8,855	13,626	8,062
Other revenues	2,965	2,841	-	-
Total revenues	1,276,154	1,623,315	676,033	1,043,895
Expenses:				
General government	281,837	280,546	-	-
Public Safety	136,703	131,315	-	-
Highways/public improvements	383,093	411,673	-	-
Parks & recreation	104,622	95,052	-	-
Court	97,913	69,639	-	-
Water	-	-	403,261	356,638
Wastewater collection	-	-	202,561	178,630
Total expenses	1,004,168	988,225	605,822	535,268
Increase in net assets before transfers	271,986	635,090	70,211	508,627
Transfers	-	-	-	-
Increase (decrease) in net assets	271,986	635,090	70,211	508,627
Net assets, beginning	2,458,206	1,823,116	4,414,163	3,905,536
Net assets, ending	\$ 2,730,192	\$ 2,458,206	\$ 4,484,374	\$ 4,414,163

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of the June 30, 2005, the City's governmental funds (General and Capital Projects) reported combined fund balances of \$924,643. This represents an increase of \$201,141 (28%) over last year's ending balances.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 45% of total general fund revenues. The largest element of taxes is sales taxes as it has been for the last several years. It represents 40% of total tax revenues and represents 18% of total general fund revenues. This compares with 19% in the prior fiscal year ended June 30, 2004.

As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provides the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

Significant changes in the governmental funds include an increase in revenues due to continuing building and growth.

Significant changes in business-type activities include bond principal payments of \$103,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year the General Fund original budget was amended from an original budget expenditure total of \$902,832 to a final budget of \$1,228,146 (36%). These increases were made to take advantage of revenues and expense being higher than originally anticipated for administration, streets, and capital projects, sanitation, and community progress.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets- The City of Wellsville's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$6,957,828 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, etc.), and machinery and equipment. The total increase in the City's investment in fixed assets for the current year was 6% (due to new purchases exceeding depreciation).

Major capital asset events during the current fiscal year included the following:

- \$147,638 for street and sidewalk improvements.
- \$100,719 for land and water share purchases.
- \$298,196 for water improvements.
- \$92,310 for sewer improvements.

CITY OF WELLSVILLE'S CAPITAL ASSETS

	Governmental Activities	Business-type Activities
Land	\$ 520,021	\$ 526,275
Buildings	270,727	226,393
Improvements	367,520	7,331,153
Infrastructure	3,849,914	—
Machinery & equipment	671,103	277,398
Construction in progress	—	—
Less: Accumulated depreciation	<u>(3,791,736)</u>	<u>(3,290,940)</u>
Total	<u>\$ 1,887,549</u>	<u>\$ 5,070,279</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt - At June 30, 2005, the City had total bonded debt outstanding of \$1,166,000. Of this amount \$132,000 is considered to be general obligation debt and backed by the full faith and credit of the City; and the remainder of \$1,034,000 is debt which is secured solely by specific revenue sources (i.e., revenue bonds).

CITY OF WELLSVILLE'S OUTSTANDING DEBT

	Business-type Activities
General obligation bonds- sewer and water	\$ 132,000
Revenue bonds	<u>1,034,000</u>
Total outstanding debt	<u>\$ 1,166,000</u>

The City's total bonded debt decreased by \$103,000 during the fiscal year.

A new note payable with a balance of \$82,000 was utilized during the year for the purchase of land.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

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CITY OF WELLSVILLE
STATEMENT OF NET ASSETS
JUNE 30, 2005
With Comparative Totals for 2004

ASSETS	Governmental	Business-type	Memorandum Totals	
	Activities	Activities	2005	2004
Cash	\$ 271,374	\$ 243,858	\$ 515,232	\$ 421,636
Account receivable	104,398	65,147	169,545	121,886
Taxes receivable	220,220	-	220,220	194,730
Restricted taxes receivable	22,806	-	22,806	35,206
Bond discounts	-	23,092	23,092	26,292
Restricted cash	658,706	273,679	932,385	1,051,144
Capital assets				
Land and water rights	520,021	526,275	1,046,296	945,577
Buildings	270,727	226,393	497,120	497,120
Improvements	367,520	7,331,153	7,698,673	7,080,500
Infrastructure	3,849,914	-	3,849,914	3,702,276
Machinery & equipment	671,103	277,398	948,501	876,622
Construction in progress	-	-	-	227,667
Less: Accumulated depreciation	(3,791,736)	(3,290,940)	(7,082,676)	(6,735,385)
Total assets	<u>\$ 3,165,053</u>	<u>\$ 5,676,055</u>	<u>\$ 8,841,108</u>	<u>\$ 8,445,271</u>
LIABILITIES				
Accounts payable	156,245	12,393	168,638	123,733
Interest payable	-	13,288	13,288	14,180
Contractor retainage/escrow	6,616	-	6,616	15,989
Bonds payable:				
Due within one year	16,000	128,000	144,000	103,000
Due in more than one year	66,000	1,038,000	1,104,000	1,166,000
Deferred revenue	190,000	-	190,000	150,000
Total liabilities	<u>434,861</u>	<u>1,191,681</u>	<u>1,626,542</u>	<u>1,572,902</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,805,549	3,904,279	5,709,828	5,325,377
Restricted for:				
Debt service	-	195,179	195,179	174,949
Roads and city improvements	674,896	78,500	753,396	860,206
Unrestricted	249,747	306,416	556,163	511,837
Total net assets	<u>\$ 2,730,192</u>	<u>\$ 4,484,374</u>	<u>\$ 7,214,566</u>	<u>\$ 6,872,369</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005
With Comparative Totals for 2004

	Program Revenues						Memorandum Totals	
	Charges for Services		Operating Grants & Contributions	Capital Grants & Contributions	Net Governmental Activities	Business-type Activities	2005	2004
	Expenses							
Governmental activities:								
General government	\$ 281,837	\$ 73,074	\$ -	\$ -	\$ (208,763)	\$ -	\$ (208,763)	\$ (185,420)
Public Safety	136,703	32,444	7,236	-	(97,023)	-	(97,023)	(96,302)
Highways & public improvements	383,093	157,571	-	146,702	(78,820)	-	(78,820)	381,928
Parks, recreation & public property	104,622	48,237	20,581	21,000	(14,804)	-	(14,804)	(25,591)
Court	97,913	179,534	-	-	81,621	-	81,621	51,979
Total governmental activities	1,004,168	490,860	27,817	167,702	(317,789)	-	(317,789)	126,594
Business-type activities:								
Water	403,261	427,352	-	-	-	24,091	24,091	241,644
Wastewater collection	202,561	235,055	-	-	-	32,494	32,494	258,921
Total business-type activities	605,822	662,407	-	-	-	56,585	56,585	500,565
General Revenues:								
Taxes:								
Property taxes levied for general purposes								
Other taxes								
Franchise taxes								
General sales taxes & highway sales taxes								
Business licenses								
Investment income								
Transfers								
Total general revenues & transfers								
Change in net assets								
Net assets - beginning								
Net assets - ending								

The notes to the financial statements are an integral part of this statement.

**CITY OF WELLSVILLE
GOVERNMENTAL FUNDS TYPE
BALANCE SHEET
JUNE 30, 2005
With Comparative Totals for 2004**

			Memorandum Totals	
	General	Other Governmental Funds	Governmental Funds 2005	Governmental Funds 2004
ASSETS				
Cash	\$ 271,374	\$ -	\$ 271,374	\$ 181,961
Accounts receivable	104,398	-	104,398	53,088
Taxes receivable	220,220	-	220,220	194,730
Restricted assets:				
Cash	451,197	207,509	658,706	517,210
Taxes receivable	22,806	-	22,806	35,206
Total assets	<u>\$ 1,069,995</u>	<u>\$ 207,509</u>	<u>\$ 1,277,504</u>	<u>\$ 982,195</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 156,245	\$ -	\$ 156,245	\$ 102,084
Contractor retainage/escrow	6,616	-	6,616	6,609
Deferred revenue	190,000	-	190,000	150,000
Total liabilities	<u>352,861</u>	<u>-</u>	<u>352,861</u>	<u>258,693</u>
Fund Balance:				
Reserved for roads	247,197	-	247,197	168,010
Reserved for first responders	2,051	-	2,051	2,002
Reserved for cemetery	46,288	-	46,288	44,613
Reserved for Capital projects fund	-	207,509	207,509	143,976
Reserved for impact fees	171,851	-	171,851	152,000
Unreserved - undesignated	249,747	-	249,747	212,901
Total fund balance	<u>717,134</u>	<u>207,509</u>	924,643	723,502
Total liabilities and fund balance	<u>\$ 1,069,995</u>	<u>\$ 207,509</u>		
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			1,887,549	1,734,704
Long term liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds.			<u>(82,000)</u>	-
Net assets reconciled to the Statement of Activities			\$ 2,730,192	\$ 2,458,206

The notes to the financial statements are an integral part of this statement.

**CITY OF WELLSVILLE
GOVERNMENTAL FUNDS TYPE
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005
With Comparative Totals for 2004**

			Memorandum Totals	
	General	Other Governmental Funds	Governmental Funds 2005	Governmental Funds 2004
Revenues:				
Taxes & special assessments	\$ 569,475	\$ -	\$ 569,475	\$ 496,800
Licenses and permits	13,585	-	13,585	17,291
Intergovernmental	198,746	-	198,746	148,684
Charges for services	264,470	-	264,470	294,472
Fines & forfeitures	179,534	-	179,534	121,618
Investment income	13,802	3,533	17,335	8,855
Miscellaneous	33,009	-	33,009	34,848
Total revenues	1,272,621	3,533	1,276,154	1,122,568
Expenditures:				
Current:				
General government	356,731	-	356,731	354,994
Public safety	121,041	-	121,041	110,238
Highways & public improvements	489,777	-	489,777	405,552
Parks, recreation & public property	107,464	-	107,464	129,185
Total expenditures	1,075,013	-	1,075,013	999,969
Excess (deficiency) of revenues over expenditures	197,608	3,533	201,141	122,599
Other financing sources (uses):				
Transfers in (out)	(60,000)	60,000	-	-
Total other financing sources	(60,000)	60,000	-	-
Net change in fund balances	137,608	63,533	201,141	122,599
Fund balances, beginning of year	579,526	143,976	723,502	600,903
Fund balances, end of year	\$ 717,134	\$ 207,509	\$ 924,643	\$ 723,502

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$ 201,141
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Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of revenues, expenditures, and changes in fund balance because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period in addition to contributed capital.	57,845
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Governmental funds report debt service payments as expenditures. In the statement of activities, the principal payments reduce the amount of the liability.	<u>13,000</u>
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Change in net assets of governmental activities	<u><u>\$ 271,986</u></u>
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CITY OF WELLSVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2005

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
REVENUES:				
Taxes:				
General property taxes	\$ 140,922	\$ 188,772	\$ 165,850	\$ (22,922)
General sales & use taxes	179,400	223,155	225,810	2,655
Franchise taxes	15,000	45,560	54,447	8,887
Energy & use tax	68,000	122,129	123,368	1,239
Total taxes	403,322	579,616	569,475	(10,141)
Licenses & permits:				
Business licenses & permits	2,500	2,964	2,965	1
Non-business licenses & permits	6,500	10,051	10,620	569
Total licenses & permits	9,000	13,015	13,585	570
Intergovernmental revenues:				
Class "C" roads	120,000	120,692	108,293	(12,399)
State liquor allotment	1,500	1,774	1,774	-
First responder reimbursement	500	3,227	3,227	-
State/local grants	-	40,067	85,452	45,385
Total intergovernmental revenues	122,000	165,760	198,746	32,986
Charges for services:				
Sanitation	149,700	156,738	157,571	833
Cemetery/parks	20,500	25,037	17,197	(7,840)
Communication center	21,720	21,818	22,076	258
Planning and zoning	10,350	29,444	29,445	1
County fire contract	5,400	5,461	5,637	176
Impact fees	20,340	32,544	32,544	-
Total charges for services	228,010	271,042	264,470	(6,572)
Fines & forfeitures:				
Court fines	76,200	166,137	179,534	13,397
Miscellaneous:				
Interest	3,500	13,440	13,802	362
History books	500	1,665	1,665	-
Lease revenue	14,200	13,414	14,376	962
Other	26,100	4,057	16,968	12,911
Transfers	20,000	-	-	-
Total miscellaneous	64,300	32,576	46,811	14,235
Total revenues	\$ 902,832	\$1,228,146	\$ 1,272,621	\$ 44,475

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(CONTINUED)
YEAR ENDED JUNE 30, 2005

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
EXPENDITURES				
General government:				
Mayor and council	\$ 16,196	\$ 14,725	\$ 15,358	\$ (633)
Administration	169,478	178,229	154,183	24,046
Court	55,005	105,677	97,913	7,764
Building & grounds	15,322	19,390	17,801	1,589
Planning and zoning	25,800	67,140	65,758	1,382
Capital outlay	-	-	5,718	(5,718)
Total general government	281,801	385,161	356,731	28,430
Public safety:				
Police	43,828	44,103	44,102	1
Communication center	21,720	23,826	21,956	1,870
Fire	25,493	33,609	27,259	6,350
First responder	15,474	15,197	14,588	609
Animal control	8,353	7,766	7,721	45
Capital outlay	-	-	5,415	(5,415)
Total public safety	114,868	124,501	121,041	3,460
Highways & public improvements:				
Streets	145,818	145,818	160,294	(14,476)
Capital outlay	69,000	200,186	178,063	22,123
Sanitation	145,728	164,421	151,420	13,001
Total highways & improvements	360,546	510,425	489,777	20,648
Parks, recreation & public property:				
Parks and open spaces	22,017	36,359	28,497	7,862
Cemetery	15,160	11,714	18,250	(6,536)
Community progress	35,350	28,973	29,516	(543)
Capital outlay	32,750	32,750	31,201	1,549
Total parks, recreation & public property	105,277	109,796	107,464	2,332
Transfers	40,340	98,263	60,000	38,263
TOTAL EXPENDITURES & OTHER USES	902,832	1,228,146	1,135,013	93,133
Net change in fund balance	-	-	137,608	137,608
Fund balance at beginning of year	579,526	579,526	579,526	-
Fund balance at end of year	<u>\$ 579,526</u>	<u>\$ 579,526</u>	<u>\$ 717,134</u>	<u>\$ 137,608</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF WELLSVILLE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
With Comparative Totals for 2004**

	<u>WATER UTILITIES</u>	<u>WASTEWATER COLLECTION</u>	<u>Memorandum Totals</u>	
			<u>2005</u>	<u>2004</u>
ASSETS				
Current assets:				
Cash	\$ 64,733	\$ 179,125	\$ 243,858	\$ 239,675
Accounts receivable	42,254	22,893	65,147	68,798
Bond discounts	18,690	4,402	23,092	26,292
Restricted cash	150,992	122,687	273,679	533,934
Total current assets	<u>276,669</u>	<u>329,107</u>	<u>605,776</u>	<u>868,699</u>
Capital assets				
Land and water rights	269,618	256,657	526,275	526,275
Buildings	151,645	74,748	226,393	226,393
Improvements other than building	4,828,976	2,502,177	7,331,153	6,712,980
Equipment	165,257	112,141	277,398	259,559
Construction in progress	-	-	-	227,667
Less accumulated depreciation	<u>(1,969,572)</u>	<u>(1,321,368)</u>	<u>(3,290,940)</u>	<u>(3,093,201)</u>
Total capital assets	<u>3,445,924</u>	<u>1,624,355</u>	<u>5,070,279</u>	<u>4,859,673</u>
TOTAL ASSETS	<u>3,722,593</u>	<u>1,953,462</u>	<u>5,676,055</u>	<u>5,728,372</u>
LIABILITIES				
Current liabilities:				
Accounts payable	11,475	918	12,393	21,649
Interest payable	12,711	577	13,288	14,180
Contractor retainage	-	-	-	9,380
Total current liabilities	<u>24,186</u>	<u>1,495</u>	<u>25,681</u>	<u>45,209</u>
Long-term liabilities:				
Bonds payable - due within a year	85,748	42,252	128,000	103,000
Due in more than one year	919,148	118,852	1,038,000	1,166,000
Total long -term liabilities	<u>1,004,896</u>	<u>161,104</u>	<u>1,166,000</u>	<u>1,269,000</u>
Total liabilities	<u>1,029,082</u>	<u>162,599</u>	<u>1,191,681</u>	<u>1,314,209</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,441,028	1,463,251	3,904,279	3,590,673
Restricted	150,992	122,687	273,679	524,554
Unrestricted	101,491	204,925	306,416	298,936
Total net assets	<u>\$ 2,693,511</u>	<u>\$ 1,790,863</u>	<u>\$ 4,484,374</u>	<u>\$ 4,414,163</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WELLSVILLE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
With Comparative Totals for 2004

	WATER UTILITIES	WASTEWATER COLLECTION	Memorandum Totals	
			2005	2004
OPERATING REVENUES:				
Charges for services	\$ 424,043	\$ 226,115	\$ 650,158	\$ 618,914
Other operating revenues	3,309	8,940	12,249	3,540
Total operating revenues	427,352	235,055	662,407	622,454
OPERATING EXPENSES				
Salary and wages	101,632	74,947	176,579	168,187
Other operating expenses	64,159	36,965	101,124	81,133
Supplies	74,582	12,714	87,296	55,745
Depreciation	129,858	67,881	197,739	185,465
Amortization	1,953	1,247	3,200	3,200
Total operating expenses	372,184	193,754	565,938	493,730
Operating income	55,168	41,301	96,469	128,724
NON-OPERATING REVENUES (EXPENSES)				
Interest income	4,489	9,137	13,626	8,062
Contributed capital	-	-	-	413,379
Interest charges	(31,077)	(8,807)	(39,884)	(41,538)
Total non-operating revenue (expense)	(26,588)	330	(26,258)	379,903
Income before transfers	28,580	41,631	70,211	508,627
Transfers from other funds	-	-	-	-
Change in net assets	28,580	41,631	70,211	508,627
Total net assets - beginning	2,664,931	1,749,232	4,414,163	3,905,536
Total net assets -ending	\$ 2,693,511	\$ 1,790,863	\$ 4,484,374	\$ 4,414,163

The notes to the financial statements are an integral part of this statement.

**CITY OF WELLSVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005
With Comparative Totals for 2004**

	WATER UTILITIES	WASTEWATER COLLECTION	Memorandum Totals	
			2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 431,850	\$ 234,208	\$ 666,058	\$ 616,202
Payments to suppliers	(159,066)	(48,882)	(207,948)	(166,463)
Payments to employees	(101,632)	(74,947)	(176,579)	(168,187)
Net cash provided (used) by operating activities	171,152	110,379	281,531	281,552
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(303,596)	(104,749)	(408,345)	(413,622)
Issuance of new debt	-	-	-	500,000
Principal paid on capital debt	(62,864)	(40,136)	(103,000)	(159,144)
Interest paid on capital debt	(31,077)	(8,807)	(39,884)	(41,538)
Net cash provided (used) by capital and related financing activities	(397,537)	(153,692)	(551,229)	(114,304)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	4,489	9,137	13,626	8,062
Net increase (decrease) in cash and cash equivalents	(221,896)	(34,176)	(256,072)	175,310
Cash and equivalents at beginning of year	437,621	335,988	773,609	598,299
Cash and equivalents at end of year	\$ 215,725	\$ 301,812	\$ 517,537	\$ 773,609
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 55,168	\$ 41,301	\$ 96,469	\$ 128,724
Adjustments to reconcile net income from operations to net cash provided by operating activities:				
Depreciation/amortization	131,811	69,128	200,939	188,665
Changes in assets & liabilities:				
Decrease (increase) in receivables	4,498	(847)	3,651	(6,252)
Decrease (increase) in other assets	-	-	-	(6,130)
Increase (decrease) in accruals	(20,325)	797	(19,528)	(23,455)
Total adjustments	115,984	69,078	185,062	152,828
Net cash provided (used) by operating activities:	\$ 171,152	\$ 110,379	\$ 281,531	\$ 281,552

The notes to the financial statements are an integral part of this statement.

**CITY OF WELLSVILLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1: Summary of significant accounting policies

Reporting entity

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparations of the accompanying financial statements.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. Interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial

statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The City applies expenses for restricted resources first when both restricted and unrestricted net assets are available.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Water Utility accounts for the activities of the City's water production, treatment, and distribution operations.

The Wastewater Collection fund accounts for the operation and maintenance of the City-owned collection system for wastewater.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds includes the cost of sales and services,

administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fixed assets and long-term liabilities

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$2,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Prior to the audit for the year ended June 30, 1982, a list of general fixed assets was not kept. At the time of that audit, an inventory of general fixed assets was taken and entered on the books. When actual costs were not available, the assets were recorded at estimated cost.

Depreciation of all exhaustible fixed assets used is charged as an expense against their operations. Accumulated depreciation is reported on the financial statements. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Water and sewer system improvements	40-50 years
Buildings	20-30 years
Machinery and equipment	5-10 years
Roads and infrastructure	15 years
Improvements other than buildings	20 years

Property Tax

Cache County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The City should adopt a final tax rate prior to June 22, which is then submitted to the state for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalty bear interest at 6% above the federal discount rate from January 1 until paid.

Property taxes attach as an enforceable lien on property as they become delinquent. All unpaid taxes levied during the year become delinquent December 1 of the current year.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within sixty days after year end.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the City in its governmental funds, therefore all annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital project funds.

The City can make adjustments to the adopted budget through public hearings. During the fiscal year, the City made several budget adjustments through a public hearing.

Capitalized Interest

The City capitalizes interest costs and interest earned as part of the cost of constructing various buildings, water and sewer projects when material. Interest is only capitalized in proprietary activities.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the business-type activities considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Bond Issue Costs

Bond issuance costs are deferred and amortized over the life of the bonds using the straight line method. Issuance costs are reported as deferred charges.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

- A. Explanation of certain differences between the governments fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$5,679,285
Accumulated depreciation	<u>(3,791,736)</u>
Total difference	<u>\$1,887,549</u>

Long term liabilities

Long term liabilities are not due and payable in the current period and therefore not reported in the fund financial statements.

Note payable	<u>\$ 82,000</u>
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B. Explanation of differences between governmental fund operating statements and the statement of net activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that bond principal is recorded as an expenditure in the governmental funds. The second element states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Principal payments of note	<u>\$ 13,000</u>
Capital outlay	\$ 207,397
Depreciation expense	<u>(149,552)</u>
Net difference as reported	<u>\$ 70,845</u>

Note 2: Legal Compliance - Budgets/Statutory

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officer so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The proposed budget is presented to the City council for review at the first scheduled meeting in May. The City council holds public hearings and may add to, subtract from, or change

appropriations, but may not change the form of the budget. Any changes to the budget must be within the revenues and reserves estimated as available by the City financial officer or the revenue estimates must be changed by an affirmative vote of a majority of the City council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22 and adoption of budgets is done similarly.

State statute requires that City officers shall not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Note 3: Cash

The City meets the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 541, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of City funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the Utah Commissioner of Financial Institutions as meeting the requirements and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers. All cash and investment accounts are insured, registered, or securities held by the City or its agent in the City's name.

The City checking account is deposited into a financial institution insured by the FDIC. Of the financial institution balances at June 30, 2005, \$106,615 were covered by the FDIC and \$54,115 were uninsured. Balances at June 30, 2005, are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Fund</u>
Cash:			
Wells Fargo - checking	\$ 1,386	\$ 1,386	General
Bank of Utah - checking	145,879	154,115	Pool
Wells Fargo - checking	5,229	5,229	General

Investments consist of deposits in the State Treasurer's Pool, and monies held by Zion's Bank as trustee for water system bond issuances. The Zion's trustee accounts were fully insured by FDIC at June 30, 2004.

<u>Description</u>	<u>Amount</u>	<u>Rate</u>	<u>Fund</u>
Investments:			
State treasurer's pool - savings	\$1,099,944	Various	Pool
State treasurer's pool - savings	27,597	Various	Water & Sewer
State treasurer's pool - savings	52,825	Various	Sewer
Zions Bank - trustee	27,169	Various	Water
Zions Bank - trustee	67,000	Various	Water
Zions Bank - trustee	16,209	Various	Water
Zions Bank - trustee	4,379	Various	Water

The interest rate paid on state treasurer pool investments during the 2004-2005 fiscal year varied from 1.7032% to 3.1816%. The "pool" is a convenient deposit-type investment administered by the State Treasurer's office and offers daily liquidity. Pool deposits are invested mainly in short term investment securities including time certificates of deposit and treasury bills, all of which are in compliance with the Money Management Act.

Note 4: Accounts receivable

Wellsville City has accounts receivable as of June 30, 2005 for general, water, and sewer funds as follows:

General fund:		
Garbage	\$ 16,778	
Court	34,400	
Communication center	2,371	
Building permits	875	
UDOT grant	38,409	
Other	<u>11,565</u>	
Total general fund		\$ 104,398
Enterprise funds:		
Water:		
Utility payments	<u>42,254</u>	
Total water fund		\$ 42,254
Sewer:		
Utility payments	<u>22,893</u>	
Total sewer fund	<u>22,893</u>	
Total enterprise funds		<u>65,147</u>
Total accounts receivable		<u>\$ 169,545</u>

Note 5: Taxes receivable

Wellsville City has taxes receivable as of June 30, 2005, as follows:

Class "C" roads receivable	\$ 22,806
Property tax receivable	200,226
Franchise tax receivable	10,065
Energy & use tax receivable	<u>9,929</u>
Total	<u>\$ 243,026</u>

Note 6: Restricted cash

The total restricted cash on the balance sheet are comprised of the following cash, cash equivalents and investments:

General fund:		
Cemetery	\$	46,288
First responders		2,051
Impact fees		171,851
B & C roads		224,391
Subdivision escrow		<u>6,616</u>
Total general fund	\$	451,197
Capital project funds:		
City yard and facilities		207,509
Proprietary funds:		
Water fund:		
Revenue bond sinking/reserve		131,906
Impact fees		<u>19,086</u>
Total water fund		<u>150,992</u>
Sewer fund:		
Restricted bond sinking/reserve		63,273
Impact fees		<u>59,414</u>
Total sewer fund		<u>122,687</u>
Total proprietary funds		<u>273,679</u>
Total restricted cash	\$	<u>932,385</u>

Note 7: Accounts payable

Accounts payable consist of amounts incurred and due at June 30, 2005, which have not been paid as follows:

General fund:		
Accounts payable	\$	101,005
Payroll and benefits		55,240
Subdivision escrow		6,616
Deferred revenue		<u>190,000</u>
Total general fund		\$ 352,861

Enterprise funds:

Water fund:

Accounts payable	\$ 11,475
Accrued interest	<u>12,711</u>

Total water fund 24,186

Sewer fund:

Accounts payable	918
Accrued interest	<u>577</u>

Total sewer fund 1,495

Total enterprise funds 25,681

Total accounts payable \$378,542

Note 8: Reserved fund equity

The amounts reported on the combined balance sheet identified as reserved fund balance and reserved retained earnings and designated fund balance are comprised of the following:

General fund:

Reserved roads	\$ 247,197
Reserved cemetery	46,288
Reserved first responders	2,051
Reserved impact fees	<u>171,851</u>

Total general fund \$ 467,387

Capital project funds:

Reserved city yard & facilities	<u>207,509</u>
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Total capital project funds 207,509

Enterprise funds:

Water fund (retained earnings):

Reserved impact fees	19,086
Reserved sinking/reserve/bond proceeds	<u>131,906</u>
Total water fund	<u>150,992</u>

Sewer fund (retained earnings):

Reserved sinking/reserve	63,273
Reserved impact fees	<u>59,414</u>
Total sewer fund	<u>122,687</u>

Total enterprise funds 273,679

Total reserved fund equity \$ 948,575

Note 9: General fixed assets

General fixed asset changes occurring for the year ended June 30, 2005, are as follows:

	Balance July 1, <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2005</u>
Land:				
Gravel pit	\$ 100,000	\$	\$	\$ 100,000
City yard	25,000			25,000
Old city yard-trade	8,000			8,000
Ball diamonds and arena	100,000			100,000
Fire station site	20,000			20,000
Walters property	900			900
Hendry property	23,833			23,833
Wellsville dam property	6,000			6,000
13 North 100 East property	30,000			30,000
Roads	72,393			72,393
Water shares		5,719		5,719
Higbee property	<u>33,176</u>	<u>95,000</u>		<u>128,176</u>
Total	<u>419,302</u>	<u>100,719</u>		<u>520,021</u>
Buildings:				
City shed	10,000			10,000
Fire station	96,576			96,576
Bowery - dam site	3,500			3,500
Bowery - city center	8,634			8,634
Restroom - Wellsville Dam	28,645			28,645
City office	46,316			46,316
Emergency response	<u>77,056</u>			<u>77,056</u>
Total	<u>270,727</u>			<u>270,727</u>
Improvements:				
Park	179,836			179,836
Tennis courts	54,275			54,275
Ballpark fences	5,088			5,088
Ballpark lights	20,073			20,073
Horse arena	13,653			13,653
Cemetery improvements	25,898			25,898
Fences	3,333			3,333
Ballpark - Wellsville Dam	27,296			27,296
Rodeo Grounds	23,138			23,138
City facilities	<u>14,930</u>			<u>14,930</u>
Total	<u>367,520</u>			<u>367,520</u>

Furniture, fixtures and equipment:

Fire department	163,679			163,679
General government	157,858	12,200		170,058
Streets and highways	203,362	41,840		245,202
Parks and recreation	<u>92,164</u>			<u>92,164</u>
Total	<u>617,063</u>	<u>54,040</u>		<u>671,103</u>
Infrastructure	<u>3,702,276</u>	<u>147,638</u>		<u>3,849,914</u>
TOTAL ASSETS	5,376,888	302,397		5,679,285
Accumulated depreciation	<u>(3,642,184)</u>	<u>(149,552)</u>		<u>(3,791,736)</u>
NET ASSETS	<u>\$1,734,704</u>	<u>\$ 152,845</u>	<u>\$</u>	<u>\$1,887,549</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 28,737
Streets	71,379
Parks and recreation	28,359
Public safety	<u>21,077</u>
Total depreciation expense	<u>\$ 149,552</u>

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<u>Water fund:</u>				
Fixed assets	\$ 5,111,900	\$ 303,596	\$	\$ 5,415,496
Accumulated depreciation	1,839,714	129,858		1,969,572
<u>Sewer fund:</u>				
Fixed assets	2,840,974	104,749		2,945,723
Accumulated depreciation	1,253,487	67,881		1,321,368

Note 10: Capital project funds

The City has established one capital project fund to account for monies set aside for the improvements of a city yard and facilities.

Note 11: Changes in long-term debt

The following is a summary of long-term debt transactions of the City's proprietary fund types for the year ended June 30, 2005:

Bonds payable at July 1, 2004	\$ 1,269,000
Less: regular payment of principal	<u>(103,000)</u>
Bonds payable at June 30, 2005	<u>\$ 1,166,000</u>

Bonds payable at June 30, 2005 are comprised of the following individual issues:

Water:

\$282,600 general obligation bonds due to Wells Fargo Bank sinking fund in monthly installments, which includes interest at 7.25%. Interest payments are made from the sinking fund on December 1 and June 1 each year, with principal payments made on June 1 each year. The principal and interest will be completely retired on June 1, 2008

\$ 82,896

\$500,000 water revenue bonds due to Utah Department of Environmental Quality in annual principal installments ranging from \$20,000 to \$31,000 plus interest at 2.45%. Obligation will be completely retired on January 1, 2025.

500,000

\$670,000 water revenue bonds due to water resources in varying annual installments which includes interest at 3.0%. Principal amounts vary from \$21,000 to \$70,000. These annual payments are accumulated through monthly installments of \$2,302 to a sinking fund established at Zion's Bank. The obligation will be completely retired on January 1, 2013.

422,000

Total water bonds \$1,004,896

Sewer:

\$167,400 general obligation bonds due to Wells Fargo Bank sinking fund in monthly installments, which includes interest at 7.25%. Interest payments are made from the sinking fund on December 1 and June 1 each year, with principal payments made on June 1 each year. The principal and interest will be completely retired on June 1, 2008.

49,104

\$300,000 sewer revenue bonds due to water resources in varying annual installments which include interest at 3%. Principal amounts vary from \$21,000 to \$29,000, with principal and interest due on June 1 each year. The principal and interest will be completely retired on June 1, 2009.

112,000

Total sewer bonds

161,104

Total enterprise bonds

\$ 1,166,000

The following is a summary of debt service requirements to maturity:

<u>Year Ending June 30</u>	<u>Bonds Outstanding</u>
2006	165,350
2007	165,878
2008	165,073
2009	134,021
2010	104,692
2011 - 2015	331,957
2016 - 2020	156,769
2021 - 2025	<u>155,424</u>
Total	1,379,164
Less interest	<u>(213,164)</u>
Outstanding principal	<u>\$ 1,166,000</u>

The following is a summary of long-term note payable transactions of the City's governmental fund types for the year ended June 30, 2005:

Notes payable at July 1, 2004	\$ ----
Add: new notes	95,000
Less: regular payment of principal	<u>(13,000)</u>
Notes payable at June 30, 2005	<u>\$ 82,000</u>

Notes payable at June 30, 2005 are comprised of the following individual issues:

General:

Note payable for land from Edward M. Higbee and M. June Higbee with interest at 5%. Interest and principal payments are made on January 15 each year. The principal and interest will be completely retired on January 15, 2014.	\$72,000
Note payable for land from Bevan J. Higbee and Clarice J. Higbee with interest at 5%. Interest and principal payments are made on January 15 each year. The principal and interest will be completely retired on January 15, 2007.	<u>10,000</u>
Total general fund notes payable	<u>\$82,000</u>

The following is a summary of debt service requirements to maturity:

<u>Year Ending June 30</u>	<u>Bonds Outstanding</u>
2006	\$ 20,100
2007	13,300
2008	10,800
2009	10,400
2010	10,000
2011 - 2014	<u>36,000</u>
Total	100,600
Less interest	<u>(18,600)</u>
Outstanding principal	<u>\$ 82,000</u>

Note 12: Insurance and bond coverage

As of June 30, 2005, Wellsville City has insurance and bond coverage with expiration dates and coverage limits as follows:

<u>Description</u>	<u>Issuer/Policy</u>	<u>Limits</u>	<u>Expiration Date</u>
Commercial general liability	Utah Local Government Trust	\$ 2,000,000	Continuous
Public Officials errors and omissions Auto liability	14770-GL64-2004		
Building and property	Unigard PX809764	\$3,824,008	7-01-05
Automobiles	Unigard BA900004	\$ 164,000	7-01-05

<u>Description</u>	<u>Issuer</u>	<u>Policy Number</u>	<u>Limits</u>	<u>Expiration Date</u>
Recorder	Old Republic	UPO980237	\$50,000	6-01-06
Treasurer	Old Republic	UPO1047246	50,000	6-01-06
Mayor, City Council, Justice	Old Republic	UPX1117361	10,000	1-09-06
Manager	Old Republic	UPO998930	10,000	2-01-06
Recorder	Old Republic	UPX1054100	30,000	9-09-06
Treasurer	Old Republic	UP01054100	30,000	9-09-06
Recorder - W.R.	Old Republic	UPO1054191	10,000	9-09-06
Treasurer-W.R.	Old Republic	UPX1054191	16,500	9-09-06
Public Officials	Old Republic	UPS1117361	10,000	1-09-06
Maleesa Cooper- Notary	Allied	BD0000131911	5,000	5-09-06
Treasurer	CNA Surety	22161170	146,000	12-20-05
Recorder	CNA Surety	22161170	146,000	12-20-05

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. No liabilities have been included in the current financial statements since none of the risk situations have occurred in the City.

Note 13: Utility users and rates

The Wellsville City water utility and sewer funds service both residential and commercial users. As of June 30, 2005, there were the following users in each category:

		<u>Water</u>	<u>Sewer</u>
Residential		927	811
Commercial		<u>15</u>	<u>2</u>
Total		<u>942</u>	<u>813</u>
		<u>City</u>	<u>County</u>
Water rates:			
3/4"-1"	Standard monthly service	\$ 26.00	\$ 52.00 first 20,000 gallons
	Excess over 20,000-50,000	\$.50	\$ 1.00 per 1,000 gallons
	Excess over 50,00 gallons	\$.70	\$ 1.40 per 1,000 gallons
1 1/2"	Standard monthly service	\$ 52.00	\$ N/A first 20,000 gallons
2"	Standard monthly service	\$ 90.00	\$ N/A first 20,000 gallons
3"	Standard monthly service	\$188.00	\$ N/A first 20,000 gallons
4"	Standard monthly service	\$285.00	\$ N/A first 20,000 gallons
5"	Standard monthly service	\$381.00	\$ N/A first 20,000 gallons
6"	Standard monthly service	\$478.00	\$ N/A first 20,000 gallons
7"	Standard monthly service	\$575.00	\$ N/A first 20,000 gallons
8"	Standard monthly service	\$861.00	\$ N/A first 20,000 gallons

Garbage rates:

60 gallon residential	\$ 8.90	
90 gallon residential service	\$ 12.75	
Multi-unit complex	\$ 12.75	per unit
Standard commercial	*	*

* Determined by service area according to volume and number of pickups.

Sewer rates:

Standard monthly service	\$20.50
Multi-unit complex	\$20.50
Standard commercial	\$20.50
Regulated commercial	*

* Determined by Wellsville City according to agreement

Note 15: Comparative fund information

The following is comparative information for the water utility and sewer funds:

<u>Water Utility Fund</u>					
	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Revenue:					
Services	\$ 393,528	\$ 347,103	\$ 320,782	\$ 310,454	\$ 313,443
Connection fees	11,650	18,675	15,950	5,800	11,600
Interest	4,489	3,978	8,082	6,540	15,551
Other	3,309	967	911	16,305	1,229
Impact fees	18,865	33,420	23,716	8,624	17,248
Contributed capital	-	198,117	-	-	-
Total revenues	<u>431,841</u>	<u>602,260</u>	<u>369,441</u>	<u>347,723</u>	<u>359,071</u>
Expenses:					
Salaries/benefits	101,632	96,452	96,903	86,869	82,123
Supplies/materials	64,159	42,500	20,724	28,666	33,883
Other	74,582	62,637	35,795	108,103	75,625
Depreciation	129,858	124,268	105,524	104,639	101,515
Interest	31,077	28,828	27,932	30,712	33,804
Amortization expense	1,953	1,953	1,372	1,372	1,372
Total expenses	<u>403,261</u>	<u>356,638</u>	<u>288,250</u>	<u>360,361</u>	<u>328,322</u>
Operating transfer in	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>-</u>
NET INCOME (LOSS)	<u>\$ 28,580</u>	<u>\$ 245,622</u>	<u>\$ 81,191</u>	<u>\$ 237,362</u>	<u>\$ 30,749</u>
<u>Sewer Fund</u>					
	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Revenue:					
Services	\$ 211,226	\$ 201,211	\$ 205,898	\$ 201,364	\$ 193,716
Connection fees	6,000	7,600	8,000	4,000	5,200
Interest	9,137	4,084	2,949	3,653	6,118
Other	8,940	2,573	2,554	2,910	2,761
Impact fees	8,889	10,905	10,781	3,415	3,852
Contributed capital	-	215,262	-	-	-
Total revenues	<u>244,192</u>	<u>441,635</u>	<u>230,182</u>	<u>215,342</u>	<u>211,647</u>
Expenses:					
Salaries/benefits	74,947	71,735	64,592	56,534	55,107
Supplies/materials	12,714	13,245	16,167	9,649	9,737
Other	36,965	18,496	25,706	19,255	26,057
Depreciation	67,881	61,197	60,602	59,507	59,210
Interest	8,807	12,710	12,277	13,290	15,213
Amortization expense	1,247	1,247	870	869	869
Total expenses	<u>202,561</u>	<u>178,630</u>	<u>180,214</u>	<u>159,104</u>	<u>166,193</u>
NET INCOME	<u>\$ 41,631</u>	<u>\$ 263,005</u>	<u>\$ 49,968</u>	<u>\$ 56,238</u>	<u>\$ 45,454</u>

Note 14: Defined benefit pension plan

Plan Description. Wellsville City (the City) contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living allowances, established and amended by the state legislature, and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members in the Local Governmental Noncontributory Retirement System are required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City contributions to the Noncontributory Retirement System for June 30, 2005, 2004 and 2003 were \$18,761, \$15,564, and \$13,822, respectively. The contributions were equal to the required contributions for each year.

Note 16: Working Capital

Net working capital for the water and sewer funds is calculated as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Current assets:		
Cash	\$ 215,725	\$ 301,812
Receivables	42,254	22,893
Less current liabilities:		
Accounts payable	24,186	1,495
Current portion of long-term debt	<u>85,748</u>	<u>42,252</u>
Net working capital	<u>\$ 148,045</u>	<u>\$ 280,958</u>

Note 17: Memorandum Totals

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

SUPPLEMENTAL SECTION

**CITY OF WELLSVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005
With Comparative Totals for 2004**

	Capital Project City Yard	Memorandum Totals	
		Total Nonmajor Governmental Funds 2005	Total Nonmajor Governmental Funds 2004
ASSETS			
Cash - restricted	\$ 207,509	\$ 207,509	\$ 143,976
Total assets	<u>\$ 207,509</u>	<u>\$ 207,509</u>	<u>\$ 143,976</u>
Fund Balance:			
Reserved for city yard & facilities	\$ 207,509	\$ 207,509	\$ 143,976
Total fund balance	<u>207,509</u>	<u>207,509</u>	<u>143,976</u>
Total liabilities and fund balance	<u>\$ 207,509</u>	<u>\$ 207,509</u>	<u>\$ 143,976</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF WELLSVILLE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005
With Comparative Totals for 2004**

		Memorandum Totals	
		Total Nonmajor Governmental Funds 2005	Total Nonmajor Governmental Funds 2004
	Capital Project General		
Revenues:			
Investment income	\$ 3,533	\$ 3,533	\$ 1,891
Total revenues	3,533	3,533	1,891
Expenditures:			
Parks, recreation & public property	-	-	-
Total expenditures	-	-	-
Excess (deficiency) of revenues over expenditures	3,533	3,533	1,891
Other financing sources (uses):			
Transfers in	60,000	60,000	20,000
Net change in fund balances	63,533	63,533	21,891
Fund balances, beginning of year	143,976	143,976	122,085
Fund balances, end of year	\$ 207,509	\$ 207,509	\$ 143,976

The notes to the financial statements are an integral part of this statement.



Peterson
Allred
Jackson

▪ Certified Public Accountants
Business Consultants

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Wellsville
Wellsville, Utah

We have audited the financial statements of the City of Wellsville, Utah (the City) as of and for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course

of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Council and management, and certain legislative bodies. However, this report is a matter of public record and its distribution is not limited.

Peterson Alured Jackson

November 4, 2005



Peterson
Allred
Jackson

■ Certified Public Accountants
Business Consultants

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Wellsville
Wellsville, Utah

We have audited the financial statements of the City of Wellsville, Utah (the City), for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special test and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City of Wellsville's financial statements).

Sidewalk Construction (Department of Transportation)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Compliance Audit Guide, including:

Public Debt	Justice Courts
Cash Management	B & C Road Funds
Purchasing Requirements	Liquor Law Enforcement
Budgetary Compliance	Other General Issues
Truth in Taxation and	Impact fees
Property Tax Limitations	

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of Wellsville, Utah, complied, in all material respects, with the general compliance requirements identified above, and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Peterson Alfred Jackson

November 4, 2005



Peterson
Allred
Jackson

▪ Certified Public Accountants
Business Consultants

November 4, 2005

Honorable Mayor and City Council
City of Wellsville
Wellsville, Utah

Dear Mayor Maughan:

In planning and performing our audit of the financial statements of Wellsville, Utah (the City), for the year ended June 30, 2005, we developed the following recommendations concerning certain matters related to internal control structure (other than "reportable conditions") and certain administrative and operating matters. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended June 30, 2005, and are not based on a special study. Our comments and principal recommendations are summarized below.

State Compliance Issues:

PRIOR YEAR FINDINGS

Finding: *Three day deposit.* The City does not, on all occasions, make their bank deposits within a three day period of receiving monies.

Recommendation: We recommend the receipting and depositing of utility billings within a three day period from the day received.

Management response: The City will continue to try and deposit monies within three days.

Status: No instances of non compliance were noted during the current year testing.

Findings: *Unreserved general fund balance.* The general fund's unreserved fund balance is in excess of the amount permitted by state law. The requirement of assessing compliance in this area indicates the general fund unreserved fund balance is in excess by approximately \$12,000.

Recommendations: We recommend that the City make this amount available for appropriation in the current fiscal year. Caution should be taken, however, as a large portion of property taxes are paid to the City in December and January of

each year to be utilized throughout the year. Allowances should be made to insure adequate funding for the final six months prior to the next bulk property tax payment.

Management response: The City is aware of the general fund unreserved fund balance excess and are making this amount available for budgeting and appropriation in current fiscal year. We, however, note that the excess fund balance will be gradually reduced to an acceptable level over the next several months with significant road projects and normal operations. The June 30 amount is artificially high because cash amounts must be retained for operation and project expenditures occurring July through December. Large property tax distributions are made in December and January of each year with smaller amounts paid over the other ten months. We must, therefore, of necessity, retain sufficient to provide proper funding until the next large property tax distribution is made.

Status: The general fund unreserved fund balance was in excess by approximately \$44,000 at 6/30/05. See current year finding.

Finding: *Justice court.* The City did not remit all of their monthly reports to the State by the 10th of each month.

Recommendation: Prepare all applicable reports on a timely basis to meet the required deadline.

Management response: The City will strive to meet the deadlines established by the state.

Status: The City is still out of compliance in this area. See current year finding.

CURRENT YEAR FINDINGS

Findings: *Unreserved general fund balance.* The general fund's unreserved fund balance is in excess of the amount permitted by state law. The requirement of assessing compliance in this area indicates the general fund unreserved fund balance is in excess by approximately \$44,000.

Recommendations: We recommend that the City make this amount available for appropriation in the current fiscal year. Caution should be taken, however, as a large portion of property taxes are paid to the City in December and January of each year to be utilized throughout the year. Allowances should be made to insure adequate funding for the final six months prior to the next bulk property tax payment.

Management response: Despite efforts to lower the general unreserved fund balance including a \$60,000 transfer to capital projects fund, the unreserved balance was still in excess. The City will continue to strive to keep the general unreserved fund balance within the state requirements.

Finding: Justice court. The City did not remit all of their monthly reports to the State by the 10th of each month.

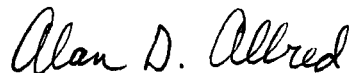
Recommendation: Prepare all applicable reports on a timely basis to meet the required deadline.

Management response: The City is in the process of training a new court clerk and will make efforts to get the reports and payments into the state on a timely basis.

In conclusion, we wish to recognize Don Hartle and Maleesa Cooper for the excellent services provided to Wellsville City. They have been most cooperative in assisting us in the performance of the audit for the 2005 fiscal year. The performance of the Wellsville City annual fiscal year audit has been an enjoyable experience for us and we would like to thank the City for the opportunity to serve as independent auditors.

Very truly yours,

PETERSON ALLRED JACKSON

A handwritten signature in cursive script that reads "Alan D. Allred".

Alan D. Allred, CPA